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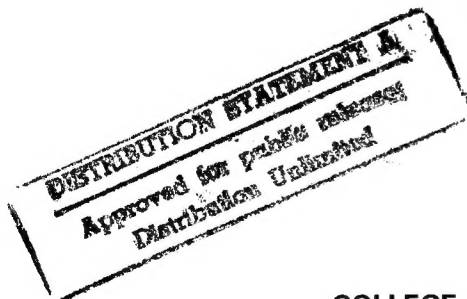
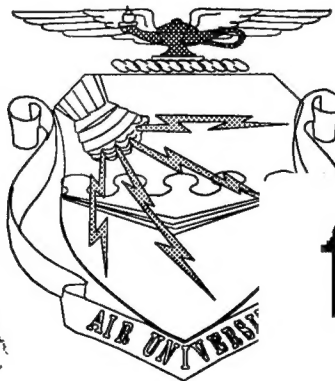
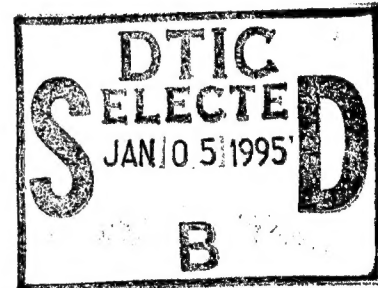
TITLE

Internal Management Control Program Consolidation

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EXECUTIVE SUMMARY

Internal management controls are not new, they have been around since 1921. Reported cases of break downs in controls created the perception of the taxpayer that the government loses billions of tax dollars through fraud, waste, and abuse. The Federal Managers Financial Integrity Act and the Office of Management and Budget Circular A-123 established internal management controls to safeguard government assets. Department of Defense implemented these controls. However, each service and agency supplemented DOD procedures to execute the internal management control program. Each service and agency has the same objective of safeguarding government assets but varies in implementation. A single regulation standardizing procedures to execute the program is overdue. A single regulation will eliminate the extra cost and efforts required to publish each services internal management control regulation. In addition future strategies utilizing joint forces operations necessitate a common set of rules to achieve internal management control objectives successfully. Recommend that DOD consolidate OMB A-123 guidance into one regulation applicable to all services.

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The Army, Air Force, Navy and Department of Defense (DOD) have different procedures for implementing internal management controls as required by the Federal Managers Financial Integrity Act (FMFIA) of 1982 and Office of Management and Budget (OMB) Circular A-123. Each agency pursues the same objective of safeguarding government assets from fraud, waste, and abuse. The new strategy of joint forces operation creates the necessity for DOD to establish a joint regulation. The new regulation should standardize procedures for all services. A joint regulation will reduce breakdowns in management controls when crossing from one service into another service's responsibility. How severe and deadly a breakdown in management controls can be is demonstrated by the downing of an Army helicopter by friendly fire over Saudi Arabia earlier this year. Another benefit of a joint regulation is the saving of quadrupled efforts and costs by each service to develop and publish separate regulations. This change would support the new joint forces strategy and be a positive milestone in the infamous history of the internal management control program. In this paper I will be discussing how the internal management control program evolved, its statutory requirements, and compare the DOD, Army, Air Force and Navy interpretation of execution of the internal management control program. The differences in program execution provide the basis for my theory of consolidating into one regulation for all services and other components of DOD.

Historically, the origin of the Internal Management Control Program is in the Accounting and Auditing Act of 1921 with the act being reemphasized in 1950. This act identified the responsibility

for department heads to establish an adequate system of internal management controls. While the requirements were on the books, very little operational attention was addressed to the issue of internal management controls. Over the past several years, the disclosure of significant cases of fraud, waste, and abuse in programs administered at all levels of government created the perception of poor management. Key officials recognized that the only effective solution to problems resulting from illegal, unauthorized, or questionable action was to take a critical look at the basic safeguards and establish an effective review of management controls that could detect deficiencies in control, design, and selection. New statutory requirements were established to support internal management controls throughout government agencies.

The statutory basis for the internal management control program is the FMFIA of 1982 (Public Law 97-255). The FMFIA mandates requirements for strengthening internal management controls throughout government. Specifically the FMFIA requires that all agencies' control systems be periodically evaluated against standards developed by the Comptroller General and that the heads of the agencies report annually on their internal management control program status via the chain of command through Congress to the President. OMB Circular A-123 implements FMFIA within the Execution Branch of the Government. Revised in 1983 and 1986, the Circular mandates that each agency establish a cost effective system of internal management controls. The system should provide

reasonable assurance that government resources are protected against fraud, waste, abuse and mismanagement, and that the program is effectively and efficiently managed to achieve the goals of the agency (1:1-12). DOD published DODD 5010.38 to implement OMB Circular A-123. This directive allowed leeway for agencies and services to establish their own internal management control programs, and left room for interpretation as to how the program should be executed. Each service has its own regulation or instructions: for the Army, it's Army Regulation 11-2, for the Air Force, it's Air Force Instruction 65-201, and for the Navy, it's Secretary of the Navy Instruction 5200.35C. To show the difference in the execution, a short synopsis concentrating on the major differences of each service's internal management control program implementation is necessary for comparison.

DOD guidelines for the internal management control programs require each component to implement a comprehensive system that provides reasonable assurance that government assets are safeguarded from fraud, waste, and abuse. Services must incorporate in their internal management control program critical steps such as:

- * Segmenting their organization into assessable units.
- * Conducting a risk assessment at least every five years to establish each activity's vulnerability.
- * Establishing a scheduled evaluation cycle based on the high, medium or low risk assessment.
- * Consolidating scheduled evaluation cycles into a master

control plan advising assessable unit managers when mandatory internal management control reviews are due.

- * Establishing a material weakness report with a corrective action plan for each control that is not effective or has not been established.
- * Tracking material weaknesses until corrected.
- * Submitting the annual statement of assurance to include reportable material weaknesses (2:1-7).

Interpretation as to how the internal management control program should be executed was left to the discretion of each DOD component.

The Army has accomplished a complete revision of their internal management control program and is implementing the new "Management Control Process" during fiscal year 95. The name of the program was changed to emphasize that it is a management and not an administrative requirement as perceived by many managers. This new, aggressive approach is tailored to meet the requirements prescribed by OMB and DOD, and is a positive step in fighting the loss of an estimated 45 billion dollars of taxpayers' monies through fraud, waste and abuse. The new policy establishes a senior management council to advise the Secretary of the Army on management control matters. Functions and organizations are segmented into assessable units at grade levels not lower than Colonel or GS 15. This ensures top level management emphasis by giving them stewardship of the management control process. Each senior assessable unit manager must establish a management control

administrator (MCA) to administer the management control process. The MCA acts in an advisory capacity to management and focuses on management control matters. The MCA ensures managers are trained and that material weakness are tracked until corrected. Furthermore, Headquarters Department of the Army (HQDA) has the responsibility to establish, through their functional proponents, a detailed risk assessment. Based on the risk, a master control plan (MCP) will be developed. All Army regulations are being revised during fiscal year 1995 to include key management controls, a streamlined management control review checklist, and document alternative review methods already in use. It leaves the use of the published checklist to the discretion of each manager. An alternative review method could be used if so desired, but has to be noted in the assessable units MCP. This change eliminates publishing the long Internal Management Review Checklist in the DA circular 11 series. These are the more significant changes in the Army's program (3:1-6).

The Air Force has a more liberal approach and places the responsibility at the lowest assessable unit of a subdivision within its organization. The lowest assessable unit manager is responsible for conducting a vulnerability assessment of his/her organization and establishing the unit's risk level in regards to fraud, waste, and abuse. Managers are free to develop their own review methods by either developing a checklist or to utilize alternative review methods already in existence. They will publish these methods in their master control plan. The assessable

unit manager must focus on controls which are excessive, and need improvement or elimination (4:1-6). This liberal approach has not been successful for the Air Force based on their previous material weaknesses track record.

The Navy applies basically the same principles as the Air Force. Their policy allows the manager a certain percentage of loss, depending on the category, before it becomes reportable as a material weakness. The Navy has adopted and applied the Total Quality Management (TQM) concept in their internal management control program. The Navy's philosophy is that TQM is a cultural change which focuses on fixing the process. As these processes are improved, there would be less need to conduct a 100 percent review of the assessable units, leaving more time to focus on improving the ability to meet the mission of the organization (5:1-5). TQM can enhance the execution of the internal management control program but has a tendency to reduce the importance of the program if not applied properly. It should not be used as a substitute for the program.

In summary, history has proven that although the government has taken positive steps to fight fraud, waste and abuse it is still extremely vulnerable. DOD and its components are complying with FMFIA and OMB. The execution of the internal management control program by each service has a different yet similar approach, leaving weak areas open such as crossing from one service into another service's responsibility.

The different approaches by each service in the execution of

the internal management control program is overdue a revision to meet FMFIA and OMB requirements. TQM, as used by the Navy, can be an excellent tool to enhance internal management controls. However TQM should not be used as a substitute for internal management controls. The Army is taking the right steps to correct the problems associated with fraud, waste and abuse. Future joint forces operations require common control measures for all services.

I recommend DOD combine all services' internal management control program directives/instructions/regulations into one publication with common execution procedures and objectives for all services. This unified effort will reduce material weaknesses, produce dollar and time savings through one publication and reduce the negative perception of the taxpayer. We must be pro-active - we have been known to close the barn doors after the horse has escaped.

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